UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

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Distr.:
GENERAL

29 September 1989
E/ECA/TRADE/89/17

Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA

Technical Meeting of Experts to the Tenth Meeting of the Conference of African Ministers of Trade

Addis Ababa, Ethiopia
13-15 November 1989

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REPORT ON THE IMPLEMENTATION OF THE INTEGRATED PROGRAMME FOR COMMODITIES

INTRODUCTION

1. The integrated Programme for Commodities (IPC) was established pursuant to United Nations Conference on Trade and Development (UNCTAD) resolution 93(IV). The resolution contains two basic elements that aim to help solve and/or ease problems connected with commodity trade. Consequently, focus is on a series of arrangements designed to stabilize and strengthen the market structure for a range of products of export interest to developing countries. It also provided for the establishment of a Common Fund envisaged to be capable of becoming a source of financing the arrangements, in addition to its serving as a key instrument in attaining its objectives.

2. However, this report on the implementation of the Integrated Programme for Commodities is intended to give only an overview of the progress so far achieved. It nonetheless includes highlights of certain constraints encountered at the various levels and stages. It is in this regards that it examines a few international and regional actions that have been taken towards solving problems of commodity trade. Its major point of departure is resolution 93(IV) and some of the decisions taken subsequently by the Committee on Commodities of the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD) as well as those of the Conferences of the African Ministers of Trade. Understandably, the report devotes more attention to the status of the Common Fund for the Commodities. Important to mention also, is the fact that this report is compiled in part on inputs made available by the Commodities Division of the UNCTAD Secretariat. Because of the time at which it is prepared, extracts have also been taken from reports prepared for the United Nations Secretary General's Expert Group on the African Commodity Problems which began its work in April 1986.

II. MAIN ELEMENTS IN THE PROCESS

(a) International Commodity Arrangements

3. The underlying principle on needed action on commodities has been defined in the numerous international conferences and debates. The main pre-occupation whenever this issue is addressed seeks to find lasting solutions to the short, medium and long-term problems facing commodities, in particular, strengthening international co-operation between producers and consumers. There is a general recognition about the need for a better functioning of commodity markets and the desirability to achieve stable, more reliable and more predictable conditions in commodity trade, including the avoidance of excessive price fluctuations and the search for long-term solutions to commodity problems.

4. Among the principal commodities covered by international commodity agreements are cocoa, natural rubber, coffee, wheat, sugar, jute and tropical timber. The first two (cocoa and natural rubber) have economic provisions for market stabilization even though the Cocoa Agreement has been experiencing difficulties in its operations. The Coffee Agreement on the other hand, suspended its quota system on 4 July 1989 which in fact had been its main mechanism for stabilizing the coffee market. The other agreements on wheat and sugar previously had price stabilization provisions but now concentrate primarily on increasing market transparency. The International Tropical Timber Agreement and the International Jute Agreement are both of a developmental nature and without economic provisions.

5. The above notwithstanding and within the general framework, the process of comprehensive consultations between producers and consumers pursuant to the Final Act of UNCTAD VII was launched in early 1988. The individual commodities concerned were bananas, bauxite, cotton and cotton yarns, hard fibres and products, manganese, meat, phosphates, tea and vegetable oilseeds and oils. Those other commodities like copper and iron-ore which were already under discussion at intergovernmental level were not included in these consultations.

6. It ought to be stated therefore in general and especially during consultations among producers that interest has been expressed regarding action concerning such developmental measures as improvements in quality, development of new end uses, trade promotion, access to markets and prevention of disease for agricultural products. The question of price instability has also been discussed but price stabilization has not emerged as a major issue for international action.

7. So far, only in the case of bananas, has a producers' position been formulated. Unlike the producers, however, consumers, for the most part did not see the need for a second preparatory meeting on bananas. In the light of this situation, the producers have stressed that as decided by the Committee on Commodities in its agreed conclusions during its thirteenth session, work on bananas in UNCTAD should continue. They requested the Secretary-General of UNCTAD to hold further consultations at an appropriate time, in the light of developments in other international fora as well as developments in the world banana economy.

8. Although there was no producers' position on meat, consumers have adopted a similar stance to that on bananas.

9. The results so far, in terms of specific and definitive outcomes, are meagre. Yet, given the need for constant contacts by delegations with their capitals in an effort to harmonize views and the need for a persuasive and clear position on the precise form of international action being sought, the present situation was to be expected. One of the reasons for the slow progress of consultations has been difficulties in communication. Some of the main producing countries do not have resident representatives in Geneva. However, further delays, for whatever reason, could seriously undermine any chance of a successful outcome. Some developed countries are already interpreting the delays so far as a lack of political commitment by developing countries.

10. Since UNCTAD VII, there have been some encouraging developments concerning the establishment of producer/consumer arrangements for commodities not included in the consultation process. This has been the case, especially for tin and copper. Although tin was not included among the commodities on which consultations would be held, after the collapse of the International Tin Agreement, producers and consumers sought, under UNCTAD auspices, the way for establishing a new producer/consumer forum. Both processes were completed in 1989 when producers and consumers reached agreement for the establishment of study groups that are basically concerned with market transparency. The one on copper explicitly includes measures for the promotion of consumption. Both arrangements would permit the sponsoring of projects for possible financing by the Common Fund.

11. Iron ore, another commodity within ITC does not have an international commodity agreement and was not included in the consultation process. The work of the Intergovernmental Expert Group in Iron-Ore is continuing. Currently, preparations are being undertaken for its third session. The Group considers statistical material and other studies and provides a forum for exchange of views and information among producing and consuming countries on the world iron-ore market. UNCTAD also administers trust fund statistics on tin and iron-ore for the time being.

(b) Actions in the area of diversification, processing, marketing and distribution

12. For most developing countries, horizontal and vertical diversification of their economies is a long-term development objective. It has been recognized that diversification can help reduce vulnerability to changing market conditions and reduce instability in commodity export earnings. Increased participation in the processing, marketing and distribution of these products can also increase the share going to the producing country, of the value-added generated in the commodity sector. Producing countries can thus also exploit more fully the income-generating potential of their natural resources.

13. Among the crucial issues identified at UNCTAD VII were access to information flows in order to aid investment decisions, and human resources development. Both these issues are of particular importance to countries with less diversified economies. In the Final Act of UNCTAD VII, governments called for intensified international assistance to be directed to diversification programmes including processing, marketing and distribution and agreed that international organizations should assist in the implementation of such programmes including inter alia through technical co-operation projects and programmes, particularly for human resources development. In response to this decision, two preparatory assistance projects funded by UNDP are being implemented. The first aims at assisting in the elaboration of a project on policies for improving the commercialization of commodities by developing countries while the second is intended to explore the modalities of a programme to promote commodity processing in developing countries.

14. With respect to the first project, the envisaged activities will include, among others, advisory missions to assist governments in the formulation or evaluation of their commercialization policies, providing training material on evaluating international marketing systems and the exchange of experience between developing countries and developed countries on policy formulation and implementation through workshops/seminars. The activities will focus primarily on six groups of agricultural commodities in their raw and processed forms: tropical beverages (cocoa, coffee, tea), sugar, vegetable oils (especially palm and groundnut), meat and hides and skins, cotton, tropical fruits and vegetables as well as spices and flowers. However, other commodities can be covered where desired, and several countries have suggested the inclusion of fish.

15. As regards the second project, the Government of Japan proposed at UNCTAD VII the establishment of a programme for the purposes of improving the processing of commodities in developing countries and, in particular, the convening of a Round Table to make recommendations or suggestions on actions which could facilitate increased processing. The preparatory assistance project stems

from this proposal and involves consultations on the possible mechanism and activities of a Round Table with governments of a number of developing countries which are highly dependent on exports of commodities in their raw and elementary semi-processed forms, with governments of developed countries which are potential donors and with concerned international organizations. The initial idea is that the Round Table would act as a catalyst for new investment within the context of a country's strategy for development of the commodity sector by drawing upon and combining experience of international organizations, as well as that of developed and developing countries, in the identification, evaluation and implementation of processing projects.

16. The first project which deals with trade policies and activities, lends itself to a regional component for commodities of interest to developing countries. On the other hand, activities of the second project will deal with commodity processing at individual country levels. Within this context, research and technical assistance programmes in the field of mineral commodities has recently been initiated with a view to examining the role of the mineral sector in the development process of developing countries. The programme envisages a series of regional seminars like the one proposed in October 1989 for the Latin American and Caribbean region in Santiago, Chile, that will consider among others, the planning process in the mineral sector and some of the inter-linkages with the other sectors of the respective economies.

(c) Certain elements of interest to the African region

17. Needless to say, most African countries are dependent on commodities for nearly all their export earnings. This is one reason, among others, why positive progress with regard to implementation of the IPC is of great interest to the African economies. Available statistical data on prospects for commodities of export interest to Africa indicate at least three commodities (cocoa, coffee and cotton) as exceptionally prominent throughout the region. For instance, cocoa is grown by no less than 19 African countries; coffee is grown in 29 African countries; and cotton is grown in 37 African countries. Other products even if less universally grown in regional terms, are nonetheless of absolute importance to the economies of one or more African countries.

18. Production by Africa of some nine major export crops (groundnuts in shell, palm oil, sugar cane, green coffee, cocoa beans, tea, tobacco leaves, cotton lint, and natural rubber) in comparison to the rest of the world showed that only in three (tea, cotton lint and natural rubber) was Africa's production rate better than the latter between 1979-1981 and 1985-1987 periods in that they were much above world average. For the rest, Africa recorded a much lower production rate.

19. An analysis of the export statistics of forty-one African countries for the period 1967 to 1986 as conducted by UNCTAD secretariat showed clearly that while some individual countries had increased their dependence on commodities for their export earnings, some others had it decreased. It should nonetheless be pointed out that about thirty two African countries have not shown any marked tendency to diversify their exports. However, many of the problems prevalent and common to export commodities in Africa are related to the general

unsatisfactory prices received by growers in developing regions. Perhaps some of the regional initiatives like intensifying regional co-operation and expanding intra-African trade will generate the required dynamism for some of the subsectors of the commodity economy within the general framework of the IPC.

(d) The Common Fund for Commodities

(i) Present status

20. The Agreement establishing the Common Fund for Commodities entered into force on 19 June 1989. The Governing Council of the Fund held its first annual meeting in Geneva from 10 to 21 July 1989. At this meeting, it elected 26 Executive Directors and their alternates who will constitute the first Executive Board of the Fund. It also appointed the Managing Director of the Fund and decided to establish its headquarters in Amsterdam, the Netherlands.

21. The Preparatory Commission for bringing the Common Fund into operation, which was established in 1980, did not complete the work programme entrusted to it during the two years when it was active (between October 1980 and March 1982). As a consequence, the Governing Council entrusted the Executive Board with the task of preparing, for consideration by the Council at its second annual meeting, draft texts of the various rules and regulations required for the Fund to operate. Therefore, the Fund is only likely to become fully operational in 1991.

22. As of 31 August 1989, the Common Fund Agreement had been signed by 120 countries, and ratified by 104 countries accounting together for 67.37 per cent of the Directly Contributed Capital of the Fund. Pledges of voluntary contributions to the Second Account announced so far, and still outstanding, amount to a total of around US$230 million or 82 per cent of the targeted amount of US$280 million. In addition to any further voluntary contributions which might be pledged, the Second Account will have that part of the Directly Contributed Capital of the Fund which members decide to allocate to the Second Account, and for which a minimum target of US$70 million is set in the Fund's Agreement. Revenues accruing from the investment of the capital allocated to the First Account of the Fund shall be used, inter alia, to cover the administrative expenses of the Fund, including those of the Second Account.

(ii) Participation of African Countries in the Common Fund

23. Among African countries, forty-three have so far ratified the Agreement, four other countries 1/ have signed but not yet ratified it and three other countries 2/ have not yet taken any action. The OPEC Fund for International Development had offered grants to 24 African Least Developed Countries for the payment of the totality of their capital subscriptions. The European Community made a similar offer for three other African Least Developed Countries.

1/ Côte d'Ivoire, Liberia, Mauritania and Mozambique.

2/ Libyan Arab Jamahariya, Mauritius and Seychelles.

Finally, Norway offered grants to four other African countries for the payment of the cash portion of their capital subscriptions. Thus nineteen African countries (including those that have not yet become members) would have therefore, to pay the totality of their respective capital subscriptions themselves and at least some of these may face difficulties in meeting their financial obligations to the Common Fund.

24. At the first annual meeting of the Governing Council 16 African countries (of which fifteen were Least Developed Countries) were not represented, and therefore were not in a position to elect their representatives to the Executive Board. Perhaps because no provision had been made for the payment by the Common Fund of the per diem and travel expenses of their representatives which explains why many of them could not participate in the meeting.

(iii) Assistance available under the First Account

25. Only international commodity organizations (ICOs) established by a formal international commodity agreement (ICA) with buffer stocking provisions can have access to the resources available through the First Account of the Fund. Such access is governed by a formal association agreement to be negotiated between the Fund and the ICO concerned. There are at present only two ICOs which undertake buffer stocking operations and therefore, in principle are potential candidates for association with the Fund, namely those for natural rubber and cocoa (INRO and ICCO).

26. Natural rubber is a commodity of relatively minor interest to Africa and no African producing country is party to the current 1987 agreement. The large stock accumulated under the previous 1979 agreement (369,000 tonnes) has been practically sold and cash resources amounting to over US$380 million became available as a result, of which about US$2.67 million were due to the African members under the 1979 agreement (Côte d'Ivoire and Nigeria). If the International Rubber Council decided to conclude an Association Agreement with the Fund in order to take advantage of the facilities available through the First Account, this could enhance the ability of INRO to stabilize prices with reduced cash requirements from individual members, and would be of benefit to African natural rubber exporting countries whether they join or remain outside the 1987 INRO.

27. For cocoa, which is of major significance to many African countries, buffer stock purchases (financed through a levy on trade) have already reached the maximum volume of 250,000 tonnes provided for under the present cocoa agreement for the international buffer stock. The implementation of the supplementary mechanism (namely the system of co-ordinated national stocks of a total of 120,000 tonnes called «the withholding scheme»), which is dependent, among other things, upon sufficient finance being available, might be facilitated if the financing facilities under the First Account could be made available to the ICCO.

28. It should be stressed that the financing ability of the First Account of the Fund is not limited to its capital. In fact, the Directly Contributed Capital allocated to the First Account shall be employed to provide revenues to cover the administrative expenses of the Fund, to enhance the credit-worthiness of the Fund and as working capital to meet short-term liquidity needs of the First Account. The Fund shall not lend this capital to finance buffer stocks. The Fund will lend to ICOs the resources it would mobilize on the capital market or from governments through borrowings guaranteed by stock warrants and guarantee capital subscribed by [illegible] of the associated ICO concerned.

29. It is difficult at this stage to ascertain whether the Common Fund could play a «catalytic role» in promoting the negotiation of ICAs with buffer stocking provisions for other commodities of export interest to Africa. It appears therefore that any significant benefit to be derived by Africa from the Common Fund,when it becomes fully operational,would be limited, in the short and medium terms,to the assistance available under the Second Account.

(iv) Assistance available under the Second Account

30. The Fund is expected through its Second Account to provide mostly grants for the financing, inter-alia, of international programmes of research and development, productivity improvements, market promotion, marketing and measures designed to assist, by means of joint financing or through technical assistance, vertical diversification. The Agreement provides for replenishments of the resources of the Second Account, on a voluntary basis, whenever required. Access to Second Account resources does not require the conclusion of an association agreement between the Fund and the beneficiary body, nor does it require the existence of a formal international commodity arrangement. Moreover, the operations of the Second Account are not limited to any list of commodities. It is important to point out however, that an individual country cannot approach the Fund directly for finance from the Second Account. The projects to be financed through the Second Account have to be sponsored and followed up by an international commodity body (ICB) meeting specified criteria. These are less stringent than those required for a formal ICO. All existing ICOs (for tropical timber, olive oil, sugar, natural rubber, cocoa and coffee) whether or not they provide for buffer stocking are automatically likely to be considered as eligible ICBs for sponsoring projects to the Second Account. Less formally contributed international commodity bodies may also qualify if they are designated as eligible ICBs by the Executive Board of the Fund.

31. A number of programmes or projects for financing through the Second Account have been or are being prepared by international commodity bodies for several major commodities of interest to African countries. Some of these programmes or projects are specifically designed for Africa, or for specific groupings of African countries. Many of these programmes and projects have been waiting since 1980 or 1981 for the Fund to become operational in order to secure the necessary financing for their implementation. For most of these projects, only preliminary profiles have been prepared and the project costs represent only a rough estimate of real costs. Financial and technical assistance is urgently required for the up-dating of these programmes and for the elaboration of the final projects, as well as for the identification and elaboration of programmes and projects for other commodities of interest to African countries.